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BENOY KUMAR SARKAR

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Hony. Professor of Economics and sometime Rector, College of Engineering and Technology, Jadavpur, Calcutta; *Gast-Professor an der Technischen Hochschule*, Munich (1930-31); *Membre correspondant de la Societe d' Economie politique de Paris*; Director of Researches, Bengali Institute of Economics, Editor, *Arthik Unnati* (Economic Progress).

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PUBLISHERS' PREFACE

The Reserve Bank Bill is already before the public and the currency controversy is likely to raise its head over again.

We trust, therefore, that the present reproduction of Professor Benoy Kumar Sarkar's interpretations and observations on these problems in their latest phase, i.e., since the publication of the Hilton Young Currency Commission's Report in 1926, will be useful to our countrymen. In these interviews, lectures and extracts from essays one will find a clear and precise statement of the basic theoretical and practical considerations involved; and they possess a value much beyond their topical contents bearing as these latter do on the problems of the day.

Those who would like to understand in the Indian background the larger world problems of currency and central banking may follow this brochure up by consulting Prof. Sarkar's studies in the monetary and banking reform of diverse countries as available in his following works:

1. *Economic Development* (Madras, 1926): Chapters on "The State Bank of Soviet Russia," "The Currency Crisis in Germany," "High Prices and Good Money," "The Pound Sterling and America," "Theories of Money Old and New" and "The Economics of Reparations (The Fall of the *Franc*)."
2. "Types and Tendencies in American Banking," a paper in the *Journal of the Bengal National Chamber of Commerce* for June 1927.
3. *Ekaler Dhana-Daulat O Artha-Shastra* (The Wealth and Economics of Our Own Times) Vol. I (Calcutta 1930): Chapter on "Currency Reform, Gold Standard and Reserve Bank (*Banca d'Italia*, etc)."
4. *Applied Economics* Vol. I (Calcutta 1932): Chapter on "The Remaking of the *Reichsbank* and the *Banque de France* (a study in note-legislation in the Perspective of the Bank of England)."

As will be noticed at several points in this publication, tariff questions have been treated by Prof. Sarkar as integral parts of the currency problem. In connection with this subject a public lecture on "India and the Ottawa Agreement" was delivered by him at the University of Lucknow on November 29, 1932. He was invited to

speak at other places also. His views were published in the Bengali economic monthly, *Arthik Unnati* (Economic Progress). He has prepared later a comprehensive treatise entitled *Imperial Preference vis-à-vis World-Economy* (in relation to the International Trade and National Economy of India). The work is in the press at the present moment.

The fundamental economic and financial considerations on which the author's currency and tariff views are based are discussed in detail in his *Economic Planning for Bengal* ("Insurance and Finance Review," Calcutta, March 1933) as well as in the chapter on "A Scheme of Economic Development for Young India" in his *Economic Development* (Madras 1926) and in several chapters of his *Greetings to Young India* (Calcutta, 1927).

Calcutta,
October 26, 1933.

CONTENTS

The Hilton Young Currency Commission's Report

(August 1926)*

The reform of Indian currency was the subject of acute controversy towards the end of 1925 when Professor Sarkar returned to India after an absence of nearly twelve years in foreign countries, in some of which (France and Germany) he had the chance to study post-war currency and banking developments on the spot in connection with his University and other academic appointments. He was therefore called upon to take part in formal and informal discussions at Bombay, Benares, Allahabad, Lucknow and Calcutta. As soon as the Report of the Hilton Young Currency Commission was published in the summer of 1926 he was interviewed by *Forward* (Calcutta) and his observations were published on August 4.

GOLD STANDARD

Questioned as to whether he is in agreement with the recommendations of the Currency Commission's Report, Prof. Sarkar remarked:

"In the main, the Report seems to inaugurate an epochmaking landmark in our monetary history. My remarks, based as they are on a bird's-eye view of some of the summaries published in different dailies of day before yesterday, can however be nothing but impressionistic. I should like to single out one or two prominent features of the proposed scheme, namely, the following:

"1. The policy of the gold standard will certainly bring India up to date and in line with the latest currency reforms in Europe.

"2. The gold currency although not yet in contemplation is not definitely outvoted.

"3. The idea of issuing "saving certificates" redeemable in 3 or 5 years in legal tender money or gold will be appreciated by a large section of the country as a mode of investment and thus be ultimately conducive to economic development.

"4. The most revolutionary item in the proposal appears to be the one relating to the cessation of coinage of silver rupees. This implies

*From Sarkar: *Greetings to Young India* (Calcutta, 1927).

designation

that (a) more small denomination notes will be issued and (b) the ground will be prepared for the gold currency at some future date. And this will involve automatically the training of the people on a large scale in habits of using money without any metallic basis and ultimately also in the use of banking and other credit instruments.

RESERVE BANK

Questioned as to whether he agrees with any of the points raised by Sir Purushottamdas Thakurdas, Prof. Sarkar said:

"I do not agree with Sir Purushottamdas who believes that the present Imperial Bank of India should have been made into the proposed Central Bank. It is desirable that the new institution should not function to any large extent as a commercial bank but like the Bank of England or the *Reichsbank* of Germany look chiefly to the currency problems of the country. This new institution, namely, the proposed Reserve Bank of India, is likely to be a powerful instrument in the establishment of India's credit and financial system on advanced lines, such as have been experimentally found to be sound in the currency policy of the Great Powers. I think that this is one of the most important items of reform in the present Report.

"It may be remarked, in passing, that the Committee wish this new institution to be more or less a duplicate of the British institution by recommending that the Issue Department should be kept wholly distinct from the Banking Department.

RATE OF THE RUPEE

1. The stabilization of the Rupee at 1s. 6d. (and not at 1s. 4d.) such as is being recommended by the Committee has, indeed, for some time been a phenomenon of the balance of trade. To a certain extent, this higher exchange certainly is an incentive to the purchase of foreign goods by the Indians, since the prices in terms of £ sterling will appear rather cheap to persons possessing the Rupee. This, however, is not an unmixed evil because, situated as we are, we cannot afford to do without foreign goods. In reality, we do not possess many manufactures. It is desirable, therefore, in the interests of millions of consumers, especially of such as cannot get their immediate necessities supplied by the industries near at hand, to obtain the goods from abroad at comparatively lower prices. Besides, the industrialization of Indian agriculture as well as other economic functions will need machineries and chemicals, such as can be furnished mainly from abroad. To get these things compara-

tively cheap is really a great help to the *Swadeshi* (Home Industry) Movement.

"2. But, one may ask, is not this cheapening of foreign goods on the Indian market detrimental to our growing *Swadeshi* industries or, for that matter, to all those industries that are being run on Indian soil with Indian or foreign capital? To a certain extent, yes. But we must note that today in India there is a Tariff Board and that the Government is committed to the policy of promoting the "key industries" within Indian boundaries. Whenever, therefore, our countrymen feel that certain industries are not in a position to maintain themselves on account of foreign competition, there is a likelihood of getting some protection for them in one form or other, by means of agitation and legislation.

"3. The tariff policy will thus to a certain extent counteract the evils such as they are of the currency policy."

Higher Exchange and Indian Agriculture

(January, 1927)*

Early in January 1927 were held in Calcutta a session of the Indian Industrial and Commercial Congress, in which business men from different parts of India took part, as well as a session of the Indian Economic Conference, the association of the University economists of India. At both, Prof. Sarkar was invited to participate, and some of his interpretations on the issues involved were presented in a lecture before the second association (3 January). He said in part as follows ;

EXCHANGE AND EXPORTS

"There are certain considerations bearing on the rate of exchange which seem to have been ignored or overlooked as much by the Majority Report of the Hilton Young Currency Commission as by Sir Purushottomdas Thakurdas in his Minute of Dissent as well as by those who have contributed to the controversy during the last five months. The brunt of the fight has been borne by the problem as to the extent of adjustment or mal-adjustment between the Indian price-level and the world price-level.

"But I intend to invite the attention of economists and publicists to the subject of the Rupee-Sterling ratio in relation to the balance of trade. My object is to discuss the problem of Indian exchange in the context of export-curve and import-curve, and more especially, the question of exports as affected by higher exchange.

The eighteen-penny Rupee is being condemned on the ground that it is detrimental to India's export-industries, in other words, to the interests of agriculture and the cultivators. My way of looking at things is quite otherwise.

PRICE IN RUPEES

Theoretically speaking, it may indeed be conceded to deductive reasoning that as soon as the Rupee becomes high compared to Sterling,

*From Sarkar : *Greetings to Young India* (Calcutta, 1927).

the foreigner has to pay more in Sterling for the Indian goods if the price be calculated in Rupees. In other words, Indian goods become dearer to the parties that have to make purchases with Sterling. The consequence should be a fall in the foreign demand, which is tantamount to saying that the exports will tend to diminish in quantity. This tendency to the diminution of exports on account of high exchange (or deflation) has indeed constituted the argument of all those economists and statesmen who in almost every post-war country, in Austria, in Czechosolvakia, in Germany, in France, in the Balkan states, in Italy, and even in England have advocated inflation (i.e. lower exchange) in order to furnish a stimulus to exports.

PRICES IN GOLD

"Now, you would retort that this holds good in the relations between "gold standard" countries. But in "gold-exchange standard" countries like India you might argue that the prices of export-goods are calculated not in the currency of the country itself, i.e. not in Rupees but in terms of the international medium of exchange, viz. gold, say, dollar or sterling. And therefore as soon as there is high exchange the Indian exporters, in other words, our agriculturists should have to be satisfied with a lesser number of Rupees for the same amount of goods because Sterling is low compared to the Rupee.

Thus arguing, we should expect agriculture to be a less and less profitable concern and the agricultural output diminishing in quantity. The natural consequence to international trade should not fail to make its appearance. It ought to manifest itself in the tendency of India's exports to diminish.

DEFLATION IN THEORY AND EXPORT-STATISTICS

We thus come to the same position as we had in the previous consideration. That is, whether the prices of Indian exports be calculated in terms of gold or in terms of Rupee, a high exchange—the eighteen-penny Rupee,—should prove to be a damper on India's export-trade.

These, then, are two wings of the *a priori* theory, the speculative reasoning, old Ricardian logic, on the strength of which one might argue that deflation (or high exchange) as embodied in the eighteen-penny Rupee would adversely affect India's export-trade, and therefore, the agricultural classes. But what are the actual facts of India's overseas trade? We have the figures to tell us that exports have neither declined in volume during the last decade or so nor have they yielded a lesser and lesser number of Rupees.* In other words, agriculture has not

*Review of the Trade of India in 1924-25 (Calcutta), Tables Nos. 7, 28—41.

proved to be an economically losing concern nor has the agriculturist suffered.

INCREASE OF EXPORTS IN GRAIN AND SEEDS

The war-average in the export of grain (rice, wheat, barley etc.) gave the figure 3,141,000 tons. In 1923-24 it rose to 3,429,000 tons and in 1924-25 to 4,260,000 tons. And the total Rupee prices received by Indians rose from 344,180,000 to 508,715,000 and 650,604,000 respectively.

The essential seeds were exported to the extent of 708,000 tons per year during the war-period, 1,177,000 tons in 1922-23, 1,255,000 tons in 1923-24 and 1,328,000 tons in 1924-25. And the Rupee yields for the corresponding years were 121,742,000, 273,538,000, 298,172,000 and 331,685,000 respectively.

The total value of exports, again, does not indicate any tendency of decline. On the contrary, beginning with Rs. 2,159,670,000 per year during the war-period, it successively rose to Rs. 2,991,619,000, 3,488,301,000 and 3,846,653,000 in subsequent years.

THE EXCHANGE-CURVE (1922-25)

But we are not interested in the export-curve in its splendid isolation. We are out to understand the export-schedule in reference to the rate of exchange. What is the significance of these rises in exports in the currency-history of India? Let us, therefore, place these increases in the figures (both in volume and Rupees) for exports in the perspective of the exchange-curve during the corresponding periods. All this time, as we are aware, the Rupee has been steadily rising in relation to Sterling. From 14, 3/6d. in July 1922 it rose to 14, 27/32d. in December 1922, 15, 1/8d. in July 1924, and 18, 1/6d. in June 1925.

The situation, therefore, is curious. The exports have been increasing both in volume and Rupee-price at a time while exchange has been rising too. But our theory should lead us to expect quite the reverse, namely, a decline in exports with the rise in exchange.

EXPORT INDIFFERENT TO EXCHANGE

The facts being what they are, the conclusion forces itself upon us in a rather unexpected form. There is no other way but to believe that the amount and Rupee-value of India's exports are not necessarily dependent upon the rate of exchange, to put it in a sober manner. And therefore it would not be right to tie the fortunes of the cultivator and the exporter inevitably down to the currency questions. Agricultural

prosperity, in so far at least as this export-item is concerned, has shown itself supremely indifferent to the 12½% or 15½% fluctuations in the Sterling-Rupee relations.

If there is any thing definite to be deduced from the history of our foreign trade it is the anomaly, the paradox, that the higher Rupee has actually been a stimulus to export or rather that the period of high exchange has coincided with the period of increased exports. What, then, becomes of the theory? We have to admit that the demand for India's goods abroad is not determined, if at all, exclusively by the rate of exchange. There are other and more weighty circumstances influencing the price-movements of export-goods.* And it is necessary to conclude that the validity of the purchasing power parity doctrine in Indian conditions has been as limited or modified as that of the quantitative theory of money.

*Cf. p. 12.

The Reserve Bank Bill, 1927

On August 19-21, 1927 the District Young Men's Conference was held at Dacca with Professor Sarkar as President of the Economic Section. His presidential address, delivered in Bengali, was entitled "The *Artha-Shastra* or Economics of Young Bengal" and dealt, among other topics, with the Reserve Bank Bill as published in the Gazette of India Extraordinary, January 17, 1927. The paper was summarized in English for the *Journal of the Bengal National Chamber of Commerce* (of which he is the editor) for September, in which, besides, some of his other views on the question have appeared from time to time without necessarily binding the Chamber to them.

The following paragraphs are extracted from the *J.B.N.C.*:

SHAREHOLDERS' BANK ACCEPTABLE

"On the question as to whether the proposed Reserve Bank is to be a state institution or a shareholders' institution we should remember that while the former type is represented in Bolshevik Russia, Italy, and elsewhere the latter is to be found in Great Britain, France, Germany, U.S.A., Japan and other countries. In regard to the administration of the Bank, Indianization should certainly have to be pressed with as much emphasis as possible. But one need at the same time observe that Indianization is unknown in any sphere of governmental activity in British India.

INDIAN BANKS IGNORED AND AGRICULTURE NEGLECTED

"There are one or two technical items in regard to the constitution of the Bank on which it is desirable to suggest an amendment in the final drafting of the Bill. First, a good many of the joint stock banks, "Loan Offices" and *Nidhis* under purely Indian management should be granted the privilege of having their commercial papers recognized by the Reserve Bank. The Bill in its present form does them great injustice for while it recognizes all the twenty one foreign banks it has accorded the same privilege to only five Indian concerns. Secondly, the co-operative credit societies of India, especially the central co-operative banks should also be admitted to the same privilege. Besides, one of the conditions to be imposed on the Reserve Bank should be similar to that by

which the *Banque de France* is compelled to advance large credit to the co-operative agricultural institutions on exceptionally favourable terms.

NOTE-ISSUE ON GERMAN LINES

"The conditions according to which the note-issue of the Reserve Bank is to be regulated are in the main acceptable. The Bill has followed neither the rigid system of the Bank of England nor the ultra-liberal system or absence of system of the *Banque de France* in regard to the gold-cover for notes. The fundamental principles of the *Reichsbank* of Germany, elastic as they are, on which have been later founded to a certain extent the Bank of Italy and the Federal Reserve Bank of America are to be noticed in the Bill relating to the proposed institution for India.*

THE POSITION OF BENGALIS

"The Bill that has been introduced in the Legislative Assembly at Delhi in order to constitute a Reserve Bank of India enumerates in a special schedule 26 banks at present operating in the country. The promissory notes of these institutions, supported by documents, have been considered by the Legislative Department to be good security against which the proposed Reserve Bank may be authorized to make loans for fixed periods not exceeding 90 days. Of these 26 institutions only five are Indian, viz. the Bank of Baroda, the Bank of India (Bombay), the Central Bank of India, the Indian Bank (Madras) and the Punjab National Bank. It is evident that there are no Bengali institutions competent enough in the present judgment of the authorities to deserve a place in the schedule."

*See "The Remaking of the Reichsbank and the Banque de France" in Sarkar: *Applied Economics* Vol. I (Calcutta 1932) and "Currency Reform, Gold Standard and Reserve Bank" (*Banca d'Italia*) in his *Ekaler Dhana-Daulat O Artha-Shastra* (The Wealth and Economics of Our Own Times) Vol. I (Calcutta, 1930).

Re the French cover according to the new principle see Art 4 of the Act of 25 June 1928 in Lebeau: *La Banque de France* (Paris, 1931), pp. 327-328.

The Linking of the Rupee with Sterling

(November 1931)

The linking of the Rupee with Sterling constituted the burning topic of the day when towards the end of October 1931 Professor Sarkar returned to India after two years and a half of sojourn in Great Britain and the Continent, during which period he was Guest-Professor for two semesters at the *Technische Hochschule* (Technological University) of Munich as well as a President of the Economic Section of the International Congress on Population held at Rome. On his arrival in Calcutta, he was interviewed by the *Amrita Bazar Patrika* and his observations on the Rupee-Sterling question were published in the issue of Nov. 4.*

BRITAIN'S GAIN

Commenting on the linking of the Rupee with Sterling Prof. Sarkar said:

"Great Britain will gain relatively on the Inidan market in comparison with America, Germany, Japan and other gold-standard countries. It is likely that the British percentage of India's foreign trade will rise a few points above the last few years' average of 30 to 40 per cent.

"It is to be observed that while Great Britain gains, India does not lose. It is an instance of Great Britain gaining at the cost of other foreigners.

"Exports from India are likely to rise. The agricultural classes of Bengal and other provinces may be expected to derive considerable benefit.

FALL OF THE RUPEE

"The explanation is as follows. Great Britain's getting off the gold standard is tantamount to the depreciation (inflation) of the British currency, namely, Sterling, in terms of the gold-standard currency. The linking of the Indian currency with the British implies (1) that the ratio of the Rupee to Sterling remains unchanged, i.e. what it has been since

*Somewhat expanded for the present publication.

1927 but (2) that the Re. is depreciated to the same extent as the £ in terms of the dollar, the Reichsmark, the yen, the franc and other gold-standard currency units.

"To give a concrete instance. Suppose previous to the linking the Re. was equal to RM. 1·50. Now let us say for the simplicity of calculation that the Re. is equal to RM. 1·00 only. In other words, the fall of the Rupee in terms of the German currency, or the rise of the RM. in terms of the Re, has been assumed to be as great as 33 1/3 per cent. Previous to this change (i.e. depreciation on the one side and appreciation on the other) the Germans could buy one Rupee worth of our jute with RM. 1·50. But after the change they are in a position to buy the same one Rupee worth of jute with only RM. 1·00. There is thus a great inducement offered to the Germans to buy our jute simply because of the alteration in the currency relation. On the other hand, previous to the change Indian customers could buy RM. 1·50 worth of German machineries with only one Rupee, whereas after the change with the same one Rupee they can import only RM. 1·00 worth of machineries from Germany. In other words, Indians find German machineries too expensive, and Germany is compelled to lose much of the market for her goods in India.

FALL IN IMPORTS FROM GERMANY, JAPAN AND AMERICA

"On account of the depreciation or fall of the Rupee American, German, Japanese and other gold standard people will find Indian goods cheaper to buy with their currency than before, whereas Indians will find the goods of American, German, Japanese and other gold standard countries dearer to buy with Indian Rupee or British Pound than before. Exports to these countries will therefore tend to rise while imports from them will tend to decline.

"But in so far as the relations of trade between Great Britain and India are concerned, the linking will leave the British buyers or sellers *vis-à-vis* Indian sellers or buyers in the relatively same position as before. Indian goods will not appear cheaper to the British customers nor will the British goods appear dearer to the Indian customers,—because neither does the Rupee fall in relation to Sterling nor does the latter rise in relation to the former.

NO LOSS TO INDIA

"Great Britain's goods will enjoy a relative advantage in India for no other reason except that the American, German, Japanese and other

gold-standard goods will appear comparatively dearer to Indian customers. Great Britain's gain in this instance does not spell India's loss. In so far as India is bound to import a certain amount of foreign goods,—machineries, apparatuses, chemicals etc.—for her daily requirements and in order to promote the development of her manufactures the competition between Great Britain and her non-British rivals on rather advantageous terms to herself is, other circumstances remaining the same, of no special economic significance to India.

"These are the purely theoretical considerations* based on the significance of the present currency readjustments. But in the mean time, one does not know as yet as to how in order to counteract or neutralize the discrimination in favour of Great Britain's goods America, Germany, Japan and other gold-standard countries are likely to manipulate their currencies or take other measures. Besides, as long as the *Swadeshi* movement is on in India and opposition to British goods continues to inspire the patriotic sentiments of the people it is certainly difficult to foresee to what extent the discrimination involved in the currency legislation is likely to act effectively in favour of Great Britain."

**Cf.* p. 7. The fall of the £ and Re has been followed by the fall of the Yen since 14 December 1931 and the fall of the Dollar since 20 April 1933.

Currency and Imperial Preference vis-a-vis Indian Peasants

(April-May 1933)

At the commencement of the eighth year of *Arthik Unnati* (Economic Progress), the economic monthly in Bengali, Prof. Sarkar as editor presented a survey of the previous seven years (1926-33) in the issue of April-May 1933. Among other topics the bearings of currency and tariff with special reference to Imperial Preference on the agricultural classes of India were discussed by him in a concise manner. The following paragraphs are reproduced in English from this survey:

INCREASE IN EXPORTS

"The eighteen-penny Rupee was introduced in 1927. As a result of this measure the Indian cultivators' goods have not been sold abroad in relatively less quantities than before, as feared at the time. A comparison of the export figures of 1927-31 with those of 1923-26 will indicate rather that the exports have increased in jute, cotton as well as tea, and this in spite of the fact that on account of the world depression we should rather expect a relative or even absolute diminution. Besides, the export of those oil-seeds the demand for which in foreign countries is old and regular has also shown some increase. The standpoint of those Indian publicists and economists who carried on the agitation against 1s. 6d. and in favour of 1s. 4d. has been demonstrated to be too pessimistic.

LINKING BENEFICIAL

"In September 1931 the British pound fell. The Indian currency was at once attached to the British as a tail. Consequently the Rupee fell along with Sterling. Since then in terms of the German, American, French, Italian, Japanese and other gold-standard currencies there has been a depreciation of the Indian monetary unit. It is because of this fall of the £ st. and of the Rupee that the industrial goods produced by the British manufacturers and the agricultural produce of the Indian cultivators have been exported to foreign countries in relatively larger

**Review of the Trade of India in 1931-32*, Tables 7, 28-41,

amounts, of course, *within the limitations of the world-depression.* Our peasants would have been in a bad fix without this affiliation or linking. In the interests of our cultivators it should be expedient for us to have the Indian currency linked up with the British in future also. The Rupee should rise and fall along with Sterling in terms of other currencies.

GOLD EXPORT DESIRABLE

"Since 1929 on account of the world-depression the goods of all agricultural countries have been exported in relatively smaller quantities. Agricultural depression is the most outstanding fact of the present crisis.* It is on account of this that great suffering has been caused to the agriculturists of India as to those of other countries. But there are many foreign goods,—machineries, factory-installations, technical equipments, scientific apparatuses, drugs, chemicals, etc., which are absolutely necessary for the Indian people, and these have to be imported by all means although in somewhat reduced proportions.

"It is clear, however, that it has not been possible in recent years, on account of the fall in the demand, to export as much agricultural produce as is necessary to pay for the imported goods. This is why the export of gold bullion has been found to be the most convenient as payment of price for the imports. Had it been impossible for India to ship gold abroad there would have been great hardships among the Indian people.

IMPERIAL PREFERENCE A HELP TO AGRICULTURE

"Towards the end of 1932 reciprocal Imperial Preference was agreed upon at Ottawa with India also as with the other members of the British Empire. In accordance with the terms of this Ottawa Agreement the Government of the United Kingdom levies customs duties on Indian goods at lower rates than on foreign (i.e. non-British, non-Indian, non-Imperial) goods. One may naturally expect under these circumstances an expansion of market in the U.K. for Indian goods. Had there been no preference coming to us from the British side Indian cultivators would have had to suffer *relatively great* losses. As soon as the world-depression is effectively over,† new marks of prosperity for the Indian

*On the world's agricultural depression see André Pavie: "La crise agricole et mondiale" in *Bulletin de la Société d' Economie Politique de Paris* for January 1933 and G. Masci: "Considerazioni sull' indebitamento agricolo" in *Rassegna Economica* (Naples, May 1933).

†For the analysis of circumstances such as are likely to lead to business recovery in India by autumn 1934 see Sarkar: "Economic Planning for Bengal" (*Insurance*

peasants will tend to make their appearance. By 1940, i.e. the terminus of the Preference period, we may expect some positive and solid signs of material advance among our agricultural classes."*

and *Finance Review*, Calcutta, March 1933). For some of the symptoms see in this connection the curves for the United Kingdom in the *Monthly Review* of the Midland Bank (London, August-September 1933). cf. also the improving situation of Germany as registered in the *Wirtschaftliche Mitteilungen* of the Deutsche Bank und Disconto Gesellschaft for September 1933.

*A detailed analysis is to be found in the author's forthcoming book entitled *Imperial Preference vis à vis World-Economy* (in relation to the International Trade and National Economy of India).

Tariff and Currency Problems at the World Economic Conference, London

(May, 1933)

In regard to the World-Economic Conference held at London in the summer of 1933 Prof. Sarkar, as editor of the Bengali monthly *Arthik Unnati* (Economic Progress), made the following among other observations :

"We witness here the clubbing of the intellects from some sixty different countries. A congress of this dimension was never held in the world before. But those economic theorists or economic statesmen who are expecting extraordinary results out of these deliberations are bound to be disappointed. On the other hand, those economists and publicists who are used to and capable of making an objective survey of the conditions up to which the world has advanced in the different corners are not likely to feel pessimistic or heart-broken about the eventual services of this Conference.

SEVERAL TARIFF-UNIONS

"In the first place, as regards tariff arrangements in international trade it should be understood that a free trade regime is out of the question. The system of customs duties and these, again, of a more or less highly protective character, is bound to continue. But it is not unlikely that in certain geographical areas a number of regions or races may consider it advisable to establish *Zollvereins* or customs-unions. The British Empire has shown the way, the French Empire is likewise showing the same way.*

NO WORLD-CURRENCY

"In the second place, there is the question of the world's currencies. Certain theorists and even statesmen have been making propaganda in

*See the series of articles entitled "Est-il opportun de réunir une Conférence Economique Coloniale?" in *Journal du Commerce* (Paris) for 30 March 1933.

favour of what may be called an international currency such as is likely to be legal tender throughout the world. One should not attach much importance to such ideas or projects. It is undoubtedly true that the regime of technocracy has succeeded in promoting business movements and intercourse between the most diverse and distant nooks and corners of the world. But the establishment of this world-economy has not been able to induce the growth of the international or universal state as commanding sovereignty over all the races and regions of the world. Mankind continues still to be polycentric in political organization. The currencies of the world also will continue to be diverse. A world-currency is not yet a question of practical politics.

DIVERSE CURRENCY-UNIONS

"Currency is like tariff mainly a political category. The state is therefore the chief consideration in currency questions. In the world-economy of to-day the following six statal organisms deserve special mention :

1. The British Empire,
2. The French Empire,
3. The U. S. A.
4. Soviet Russia,
5. Japan, and last but not least,
6. Germany.

"But it is not on the strength of politics (i.e., race and nationalism) alone that mankind can go on. The other states of the world are bound to get connected with these centres by economic ties in spite of their own nationalistic ambitions as well as of the nationalistic achievements of the big centres. No matter whether these other regions are from the standpoint of political sovereignty independent, semi-independent, or dependent there is no means of their flourishing in the economic fields without linking with some one or other of these powerful centres. It is only when the tariff and currency systems of these other peoples are managed in intimate unison with those of the six systems enumerated above that the avenues to their economic progress will be clear and smooth. In other words, currency-unions will have to become the established fact of the world-economy just as the customs-unions are. But in any case, the nationalistic rivalries and antagonisms of the political organisms are so complicated and so frequent that one ought to remain prepared for occasional, nay, periodical disruptions and reshufflings of customs-unions and currency-unions.

GOLD BULLION STANDARD

"There is hardly any likelihood of gold losing its prestige in the world's currency questions. For some long time yet the international monetary world will continue to witness the prevalence of the Gold Bullion Standard which has been introduced in the leading countries (including even India) since 1924-26. We do not for the time being find any ground for altering the regime of that standard. It is to be observed that in reality currency difficulties have not arisen in many countries during the period of the world-economic crisis since 1929. The chief cause or mark of the present depression is to be found in the decline in the exports and imports of goods. The crisis is not mainly one of currency but of commerce, especially, of international trade.*

MULTIPLICITY OF STANDARDS

"It is not to be taken for granted, indeed, it is *hardly likely* that the terms of affiliation, linking and assimilation between the region and the powerful centre will be along the same lines in the diverse currency-unions of the world. In each of these currency-unions the relations of the central currency with the affiliated currencies are bound to remain diverse. In certain regions we may have to encounter perhaps the monometallic silver standard and in other instances it is not surprising that the "dyarchy" of gold and silver i.e. bimetallism will prevail.

NO CHANGE IN RUPEE-STERLING RATIO

"The terms of affiliation or understanding between India and Great Britain in regard to currency matters are in the main beneficial to our people and should be adhered to for some time. In case the further depreciation of the Rupee is considered desirable in order to raise prices at home or promote the export of goods a corresponding depreciation of Sterling will be a necessity in order that the currency-union may be kept in tact. The tariff relations of India in regard to the United Kingdom being what they are (Imperial Preference), a change in the Rupee-Sterling ratio will be prejudicial to India's interests unless of course at the same time the tariff schedules are revised from top to bottom.

SILVER-CURRENCY AND LOWER GOLD-COVER AS HELP TO RISE IN PRICES

"In order to solve the world's price-problem, i.e., to raise the prices to a higher level, it may be found expedient to enable the Reserve

*Roberts: "Gold Movements into and out of the United States" in *Selected Documents on the Distribution of Gold* submitted to the Gold Delegation of the Financial Committee (League of Nations, Geneva 1931), p. 56.

Banks of every country to issue a comparatively larger volume of notes. This will necessitate the modification of the laws relating to these Banks. The modification is to be effected in the direction of authorizing the issue of notes against a lower than the statutory percentage of gold-cover. It may be possible in the same connection to elevate poor silver back to the legitimate currency level. As a result, silver may again rise in international worth. The enhancement of the agricultural prices by such currency measures, desirable as it is for our peasants, landowners, middle class men and the Government, will at the same time enable India to buy larger quantities of foreign machineries; and this will serve to bring down the unemployment figures of the machinery-producing countries also."

The Export of Gold from India

(May 1933)

On May 28, 1933 a paper on India's contribution to international trade was read at the *Bangiya Dhana-Vijnan Parishat* (Bengali Institute of Economics) by one of the Research Fellows, Sj. Sudha Kanta De, M.A., B.L., translator of Ricardo into Bengali. It was followed by discussions in which several other Research Fellows as well as Dr. Narendra Nath Law, who had been a Government of India delegate to the Round Table Conference in London, took part. One of the points debated had bearings on the export of gold from India.

To this discussion Prof. Sarkar, as Director of researches at the Institute, contributed the following observations:

"Much sentimentalism has of late been showered on this outflow of gold. But to the student of matter of fact economics it is hardly worth while to be so emotional about gold as such. And in regard to the actual place of gold in Indian economy the positive facts are such as should counsel us to be less nervous and fidgety than we happen to be at the present moment.

GOLD BULLION AS WEALTH

"Gold bullion is only a form of wealth. As such it is not necessarily more important or valuable than other forms of wealth. Agricultural holdings or farms, pastures, mango groves, paddy fields, grass lands, tanks, fisheries, mines, crops, cattle, coal, iron, machineries, chemicals, buildings, silver, bank notes, cheques, shares, securities, etc. are, as forms of wealth, not of less worth than gold. To possess large quantities of one or other of these forms of wealth is to be rich in the same sense as to possess large quantities of the yellow metal.

GOLD BULLION ORDINARILY NOT MONEY

"For the purposes of commercial intercourse there is no reason why each one of these diverse forms of wealth could not be used against one another as equivalents. A system of barter-economy would indeed lead to the establishment of every form of wealth as money or instrument of payment.

"It is just an accident that certain precious metals, especially gold and silver, happen to be used as the standard of value in most of the

countries of the world at the present moment. It is an accident also that along with coins struck off from precious metals the cheques, notes, securities etc. have by fortuitous circumstances of the modern world-economy obtained the privilege of functioning as instruments of payment in commercial intercourse. All the other thousand and one forms of wealth including the gold and silver bullions (as contrasted with coins) function to-day as mere goods, and however valuable they may be, are not allowed to function as money.

GOLD BULLION AS EXCEPTIONAL INSTRUMENT OF PAYMENT

"If then, India has to make any payments abroad she must use either the coins as struck off according to law (not the bullion pieces) or the cheques, notes, etc. Unluckily since Great Britain's, and along with her, India's getting off the gold standard, all these usual media of payment have fallen in value in comparison with the gold standard currencies. This depreciation of the currency in its ordinary forms is indeed the result and meaning of the suspension of the gold standard. In order to pay for imports India has, therefore, to discover a way which will not compel her to incur loss by using depreciated currency.

"The best way is naturally to make payment by exporting goods. But on account of the world-depression since 1929 the demand for Indian goods has fallen off in just those countries to which India has to make payments. It is to be observed *en passant* that for the daily requirements of her life as well as in the interest of industrialization India has still to import certain goods (no doubt in reduced quantities) from these countries, although these latter are not in a position to import as much agricultural produce and other raw materials as before. The way of payment by export of goods is then blocked. The only way that is left under the exceptional circumstances is the export of gold bullion, the commodity which has maintained its value in tact by the world standard, or rather has experienced a relative "appreciation". Gold bullion has thus been elevated to the rank of an exceptional instrument of payment, so to say. Such is the case likewise with certain agricultural countries in recent years, for example, Argentina and Australia, in which imports have risen and exports fallen.

THE GOLD IMPORTS OF SEVEN YEARS (1923-30)

"Fortunately for us, India happened to possess gold in quite considerable amounts. From 1923 to 1930 India imported large quantities

of gold.* The value of the net imports of gold bullion (deducting the exports) is given below:

				Rs.
1923-24	...	...	...	292,100,000
1924-25	...	...	...	738,800,000
1925-26	...	...	...	348,600,000
1926-27	...	...	...	194,000,000
1927-28	...	...	...	181,000,000
1928-29	...	...	...	212,000,000
1929-30	...	...	...	142,200,000
		Total	...	2,108,700,000

During the seven pre-depression years India was in a position to absorb from abroad Rs. 210 crores and 87 lacs.

"And it is this gold which was imported from abroad on account of certain trade relations that is in part being exported abroad to-day on account of certain other trade relations. In other words, as soon as the export and import of goods between India and the foreign countries are restored to the pre-depression level the journey of the same yellow metal back to India may be expected as a matter of course, unless of course in the meantime India chooses to possess some other forms of wealth in order to replace gold imports.

The recent exports of gold* can be shown as follows:

1932	...	...	...	$195,765,000
1933 (May)	..	...	...	$ 51,315,000
		Total	...	$247,080,000

During this entire period except only during the last few weeks the Rupee was depreciated and fell from the parity of 46·50 cents to a general level of some 27 cents. At this rate of exchange 247 million dollars would be roughly equivalent to Rs. 940,000,000. This, then, measures the total export of gold as against the import of previous seven years valued, as it is, at Rs. 2,108,700,000.

GOLD BULLION AS NOTE-COVER

"One might suspect that the export of gold would lead to the depletion of gold and thus threaten the gold-cover of the notes issued by the

*For gold imports into India see *Balances of International Payments* (League of Nations Memorandum, Geneva 1931), pp. 123—124.

*For gold exports from India see *Federal Reserve Bulletin* (Washington D. C.) for June 1933, p. 375.

Currency Department. But the story of the note-circulation indicates that the position of the gold reserve has hardly been affected except in the favourable direction. On May 15, 1932, for instance, against a note-circulation of Rs. 1,678,631,000 the percentage of metallic (i.e. gold as well as silver) reserve was 71·79. But the gold bullion accounted for only 6·2 per cent of the total note-circulation. On May 15, 1933 the total metallic reserve was 77·30 per cent of the notes which amounted to Rs. 1,754,990,000.* The percentage of metallic cover has risen from 71·79 to 77·30 per cent. At this latter date the gold bullion as cover for the notes was Rs. 262,604,000 (as against Rs. 106,143,000 on May 15, 1932). And this is 14·9 per cent of the total circulation. The percentage of gold cover has thus risen from 6·2 to 14·9 per cent during the period of the export of gold from India. One need not therefore be too panicky about the situation."

*Indian paper currency returns may be seen conveniently in the weekly *Commercial Gazette* (Calcutta).

Indian Reserve Bank Committee's Report

(August 1933)

The Report of the Committee on Indian Reserve Bank Legislation was published in a summary form on August 4, 1933. On the subject of the proposals contained in this Report Prof. Sarkar was interviewed by *Advance* and his observations and interpretations were published in the issue of the next day, as follows :—

"The principles of the Reserve Bank for India, as first proposed in 1927, appeared to me acceptable from the standpoint of purely banking considerations. There is nothing in the proposals of to-day which can dissuade one from accepting it, provided one does not make too much of formal political considerations.

Unfortunately the items published to-day are so scrappy that it is difficult, except in a very general manner, to call attention to some of the prominent features.

THE AMERICAN SYSTEM

"To begin with, we should be quite clear in regard to the fact that although the new institution is to be called a Reserve Bank there is not much in common between the one proposed for India and its namesake in America, except only in so far as the principle underlying the cover for note circulation is concerned.

"The American Federal Bank is a genuine Bank of Banks, because none but Banks can become members of the federal system; whereas the Reserve Bank for India shares are not to be the exclusive monopoly of banking institutions. Private shareholders should appear to be preponderant, and since no individual shareholder can exercise more than ten votes, the emancipation of the institution from the authority of "big capital" is likely to be realised, at any rate, in theory.

"Although economic India is a territory of vast dimensions, the proposed Reserve Bank will, however, be more akin to the British, French and German institutions, since, by statute, there is no compulsion to derive their shares exclusively from banks as foundation members. The promoters and "proprietors" of the Indian as well as European Reserve

Banks are thus not necessarily banks but business people and other holders of capital.*

RELATION WITH BANKS

"In regard to the relations between existing banks and the proposed Reserve Bank, it seems that, other circumstances remaining the same, arrangements with the Imperial Bank could not *in general* be different from what has been suggested. As for the other banks the principle that they should maintain minimum balances with the Reserve Bank is quite in order. It has been observed by custom in England for a long time, in fact, this is the British "tradition". The *Reichsbank* also has grown into a central station for the deposits of the German banking institutions, although not to the same extent as the *Banque de France;* and of course, in America there is a statute which compels all member banks to contribute a certain percentage of their own capital to the capital stock of the Reserve System.

"All the same, not even in the United States, and not of course in Germany, has it been possible to centralize the deposits and control the risks in an effective manner, because a very large number of banks in those countries lies outside the Reserve System. Besides, many of these banks take part in industrial under-writing, which is very difficult to control as a matter of course.

"DISCOUNTING" PRIVILEGE

"This problem is likely to acquire a special significance in India because the "scheduled banks" such as may have the privilege of having their papers discounted by the Reserve Bank are very few in number. There are no details forthcoming yet, but it is necessary to suggest that in each of the five areas businessmen should see to it that a good many of the Joint Stock Banks, Loan Offices or *Nidhis* under purely Indian management, acquire this privilege.

"We may recall that in the Bill of 1927† *not more than five "Indian" Banks* were to be accorded this privilege as against all the 21 foreign banks of those days. This is a point which is to be approached by us not only from the stand-point of Indianization and political importance

*See Sarkar: "Types and Tendencies in American Banking" in the *Journal of the Bengal National Chamber of Commerce* for June 1927.

†The privilege of "scheduled banks" is not defined in the Report under consideration. For the purpose of the present interview we may commence with the definition as in the Bill of 1927 (discounting privilege). But in the Bill of 1933 the definition of the privilege is substantially different (signature privilege). Cf. pp. 8, 9, 30.

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in commerce, but also in order that the business interests of our diverse districts and rural areas can be safeguarded.

MOFUSSIL BANKS

"It is reported that the criterion on which an institution is to have a place among scheduled banks has not been decided upon. I should suggest that it is desirable to attach more importance to deposits than to the paid-up capital in this regard. In this connection, something ought to be done also to link up the "indigenous bankers" of the Mofussil with the entire Reserve system by establishing some legal contact between them and the leading institutions in each area.

COVER

"Something like the principle of 20 p.c. gold-cover has been proposed. This should seem rather revolutionary, because the latest principle in the system of proportional cover,* as embodied in the leading Central Banks of the Continent and America, has been that of between 30 and 40 p.c. But this may eventually be in keeping with the current tendencies with regard to the gold-silver problem that has influenced world-economy during the present crisis. The reduction of gold cover, and the utilization of silver, both for purposes of cover as well as for currency, should appear to be some of the measures calculated to raise the prices and facilitate the rehabilitation of exports and imports on the pre-depression level.

"For the purpose of clarity it is to be observed that the total cover recommended in the Report is 20 per cent gold *plus* sterling-exchange, silver and securities. It is worth while also to note that since August 1930 the actual gold cover of the note-circulation in India has ranged as a rule between 18 and 16 per cent, i.e., somewhat lower than the proposed 20 per cent. The total *metallic* cover, however, has during the same period ranged between 80 and 75 per cent.

INDIA AND EMPIRE-ECONOMY

"It seems to me that our businessmen need not contest this Bill, although it is being thrust upon us rather too hastily. It is clear, at any rate, that the question of ratio remains closed so far as India and Great

*For legal reserve requirements of foreign central banks see *Federal Reserve Bulletin* (Washington, D.C.) for July 1932, pp. 437—438.

Britain are concerned. The currency as well as tariff questions do not, therefore, have to be touched at the present moment. Besides, on account of the Ottawa Imperial Preference India is a part of the Empire-Economy. The Indian economic conditions are not likely to be adversely affected so far as the extra-Empire business relations are concerned, simply because the Bank is established. Of course, when the Federal Structure begins to function, it may be necessary to introduce certain changes in the administrative machinery of the Bank or even reopen the ratio and tariff questions without in any way affecting the principles of central banking as such.

AGRICULTURAL INTERESTS

"From the standpoint of agriculture, it is necessary to observe that the Government ought to get certain concessions from the Reserve Bank in the manner of the French Government from the *Banque de France*,* so that it may be possible to help forward the Co-operative Societies with substantial grants and loans at favourable rates.

"Thus considered, the question of the Directorate deserves more than a passing notice. It is not enough to say that eight directors will represent the shareholders. We should rather stress the point that a substantial portion of the Directorate should represent the agricultural interests".

*For loans without interest to the Government see *Compte Rendu* of the *Banque de France* for 1933 (Paris), pp. 21—22. *Cf.* p. 33.

The Reserve Bank of India Bill, 1933

In view of the discussions on the Reserve Bank Bill by the Joint Select Committee commencing at New Delhi on 23 October Prof. Sarkar was interviewed by the news agency, the *United Press*, on the same day and his interpretations and criticisms from the standpoint of the existing Loan Offices and other joint stock banks under Indian management were published in the leading dailies of India, as follows :—

A BIG AND PRIVILEGED COMMERCIAL BANK

"In the Reserve Bank of India Bill there are certain features which are likely to be interesting to those of our countrymen who wish to see the progress of joint stock banks "under Indian auspices". The Reserve Bank is essentially a commercial bank, and since it is a big institution and an institution enjoying certain privileges from the Government, the ordinary, i.e. private commercial banks have reasons for anxiety in its presence. Even large-sized commercial banks are likely to be upset by the establishment of such a powerful concern. Now, "Indian" banks with solitary exceptions are as a rule medium-sized, nay, tiny or pigmy. As for the eight to nine hundred Loan Offices or "cottage banks," as I have called them so often,* there is every reason for their being nervous about their very existence as soon as the Big One makes its appearance in the market.

"INDIAN" BANKS NOT LIKELY TO SUFFER

"It is just from the standpoint of these fears and anxieties of private banks that we should call attention to the very nature and function of the Reserve Bank as proposed in the present Bill. As in other countries, in India also the Reserve Bank is to be saddled with a statute such as will prevent it automatically from injuring the interests of the private banks. Indian, nay, Bengali banking concerns, as banks, are not likely

*See 'The Bank Capitalism of Young Bengal" in Sarkar: *Applied Economics* Vol. I (1932).

to suffer simply because of the establishment of the Reserve Bank. The safe-guards that have been proposed are extensive and varied and will tend to offer the private concerns, including the Loan Offices of Bengal, opportunities for self-assertion in their own fields. It is to these measures of safety that as students of bank-technique and bank-capitalism our countrymen ought to devote a part of their attention.

RESERVE BANK NOT TO PAY INTEREST

"From the standpoint of private banks the most important clause in the Bill is certainly that which saves them from competition with this privileged institution. The safety of these banks,—large, medium and small, non-Indian as well as "Indian,"—is guaranteed by Art. 17, Section (1), which describes one of the different kinds of business which the Reserve Bank will be authorized to carry on. This has reference to what is called "passive banking," as follows:—"the accepting of money on deposit without interest from and the collection of money for, the Secretary of State in Council, the Governor General in Council, Local Governments, States in India, banks and any other persons."

"The position is emphasized in Art. 19, Section (6), which, while enumerating the different kinds of business forbidden to the Reserve Bank, mentions categorically that it is not permitted to "allow interest on deposits or current accounts."

"On this point the Bill can cite a recent American precedent. The Federal Reserve Act of 1913 has been amended on a large scale by the Banking Act of June 1933* which provides, among other things, for the "safer and more effective use of the assets of banks," and "prevents the undue diversion of funds into speculative operations." Section 19 of the American Act under the present regulations has the following: "No member-bank shall directly or indirectly by any device whatsoever pay any interest on any deposit which is payable on demand."

"Naturally, the Reserve Bank is not likely to attract interest-seekers. The business world therefore is left wide enough for all the private banks and they are thereby enabled to draw upon the resources of everybody who possesses something without fear of competition from this source.

RESERVE BANK BOUND BY ONE, TWO OR MORE SIGNATURES

"Another source of security for the private banks in regard to the question of competition with the Reserve Bank is furnished by Art. 17,

*For the Banking Act of 1933 see *Federal Reserve Bulletin* for June 1933, p. 394.

Section (2). The purport of all these measures is to prevent the Bank from entering into those kinds of "active" business which are likely to be risky in any way. No bill of exchange or promissory note is to be purchased, sold or rediscounted by the Bank unless the documents bear the "signature of a scheduled bank"* as in the case of business in Government securities [Clause (c)] or "two or more good signatures, one of which shall be that of a scheduled bank" as in the case of *bona fide* commercial transactions [Clause (a)] or of agricultural operations or marketing of crops [Clause (b)].

"In all these instances the risks fall ultimately on those institutions which furnish the signature, and it is interesting to observe incidentally that in every instance the "scheduled bank" is either the only such institution or at any rate one of such institutions. Whatever is necessary to safe-guard a Central Bank from the temptations of running headlong into business, which, although likely to be profitable is none the less attended with risk, nay, which is likely to be very profitable *because* it is attended with speculation and risk has been attempted in this Article. The compulsion to consider certain kinds of business only when the guarantee has been furnished by one, two or more good signatures is the greatest brake upon the freedom of the Bank. It is necessarily, therefore, the most desirable in the interest of the private banks because the Bank's competition is thereby reduced to a minimum. The entire world of speculative, risky and therefore profitable business is left free and unobstructed for them and they are at liberty to ransack this world, each according to its risk-bearing capacity.

RESERVE BANK NOT TO MAKE UNSECURED LOANS AND ADVANCES

"In regard to other kinds of "active" business also, the interests of private banks are safeguarded by the Section (4) of Art. 17, which describes the conditions under which the Bank is authorized to make loans and advances. It is provided that the loans and advances must be either repayable on demand or during the period of not more than ninety days. And in no instance are the loans and advances to be made without security. The kinds of security are enumerated in clause (a) to (e), which, however, need not be discussed here. These limitations upon the freedom or discretion of the Bank are further emphasized in Art. 19, Sections (4) and (5), where it is forbidden to make unsecured loans or advances and draw or accept bills payable otherwise than on demand.

*See pp. 8, 9, 25.

"It is to be understood that private banks are subject to no such limitations. They can use their discretion in regard to every proposition that comes, and it is at their free will that they can decide as to whether a client deserves an unsecured accommodation or a credit for longer than ninety days. Indeed, it is just in this power of exercising discretion that the *forte* of banking consists.

THE CLAIMS OF "INDIAN" BANKS

"As regards the status and number of "scheduled banks," the Bill of 1933 is superior not only to that of 1927 but also to that of 1928, because the number of scheduled banks which rose from 26 to 62 in 1928 has risen to 69 in the present instance. In other words, the privilege of "signature," on the strength of which the Bank is to purchase, sell or rediscount bills of exchange etc, has been extended to a large number of "Indian", including some Bengali, concerns. It is to be observed, besides, that the "signature" privilege is substantially different from the "discounting" privilege of 1927.

"The following Bengali banks have been accorded a place in the list of scheduled banks:

1. Bhowanipur Banking Corporation, Calcutta.
2. Jalpaiguri Banking and Trading Corporation, Jalpaiguri.
3. Raikut Industrial Bank, Jalpaiguri.

"The list is not imposing. But one will have to observe that in 1927 not one was mentioned and in 1928 the third in the list of 1933 did not obtain the privilege. But still at the present moment we must not refrain from exploring the possibility of pushing the claims of some more of our "cottage banks" to legislative recognition.

MORE BENGALI BANKS DESERVE RECOGNITION

"It is surprising, indeed, that only three should have been singled out in the Bill. So far as capital-power is concerned, the following institutions belong more or less to the same group as these three:—

1. Jagadamba Loan Co., Birbhum.
2. Indian Industrial Bank, Calcutta.
3. Mahaluxmi Bank, Chittagong.
4. Bengal Central Bank, Calcutta.
5. Luxmi Industrial Bank, Calcutta.
6. Naogaon Atrai Bank, Rajsahi.
7. Chittagong Bank, Chittagong.
8. Jessore Loan Co., Jessore.
9. Tippera Loan Office, Tippera.

The capital of these institutions ranges between Rs. 100,000 and Rs. 500,000.

"And if the criterion is to be furnished by the command over deposits the claims of the following might well be considered along with those of the three in the Schedule;

1. Jessore Loan Co., Jessore.
2. Faridpur Loan Office, Faridpur.
3. Rangpur Loan Office, Rangpur.
4. Bogra Loan Office, Bogra.
5. Bengal Central Bank, Calcutta.
6. Khulna Loan Company, Khulna.
7. Comilla Union Bank, Tippera.
8. North Bengal Bank, Rangpur.
9. Faridpur Bank, Faridpur.

The deposits in these institutions range between Rs. 1,000,000 and Rs. 5,500,000.

"The institutions common to the above two counts are only two in number. Excluding the double entries, then, there are at least sixteen Banks or Loan Offices in Bengal, the claims of which ought to be seriously discussed while preparing the final Schedule for the time being.

While appraising the strength of these institutions, the condition of "frozen assets" in which the Loan Offices find themselves to-day owing to the agricultural depression as an element in the crisis in world-economy should not be treated more seriously in Bengal than in other agricultural countries including the U.S.A.

THE PROBLEM BEFORE BENGALI BANKERS

"It is important to signalize the fact that the present Bill does not, like the one of 1927, make the list statutory and fixed. According to Art. 42, Section (7), the door is open to the Loan Offices of Bengal and the *Nidhis* of Madras as well as other Indian banking institutions to enter the list. The possibility of raising the status of the smaller banks is not to be ignored or minimized.

"Bengali economic statesmen should know how to manage their banking affairs in such a way as to command important position in the atmosphere of the Reserve Bank along with the representatives of other regions in India. Once more let me repeat my suggestion of long standing to the effect that the time has come for amalgamation and consolidation in Bengali banking enterprise. The opportunities to be rendered available by the establishment of the Reserve Bank should be utilized by Bengali bankers in right earnest in order to strengthen their position in Bengal as well as in All-India.

TWO BENGALI INTERESTS NEED SPECIAL DIRECTORS

"The two fundamental interests of the Bengali people in the domain of Indian finance are (1) those of the agriculturists and (2) those of the small-sized banks and loan offices. For some long time to come we Bengalis are bound to remain a nation of virtual peasant proprietors, petty capitalists, small concerns, and cottage or medium industries of diverse kinds such as testify to the new manufacturing talent of Young Bengal in various lines. Our approach to the Reserve Bank must therefore be oriented to these inevitable considerations. From this standpoint we have to see to it that at least two of the eight Directors (in case they are to be eight only) of the Central Board representing the shareholders are persons such as possess special interest in agriculture and small banks. The problem of the directorate, central as well as local, will have to be re-examined from the viewpoint of these basic exigencies in the national economy of Bengal.

BENGALI CULTIVATORS AND THE RESERVE BANK

"In Bengal we ought to take interest in the manner in which French co-operative societies are enabled to finance the cultivators on account of the advances from the *Banque de France*, a topic to which I have been inviting the attention of our countrymen for quite a while. The Reserve Bank should be prevailed upon to cultivate the same relations with our co-operatives and cultivators as the French Central Bank does for those of France.*

SUBSTANTIAL SHARE-CAPITAL FROM BENGALI LOAN OFFICES

"It is time for the directors, managers and others associated with the world of Loan Offices in Bengal to organize measures with a view to secure a substantial portion of Rs. 16,500,000 which is allocated as share-capital for Bengal. Not less than Rs. 5,000,000 should be collectively subscribed by the combined Bengali banks. Here is a chance for the Bengali people to enter "high finance" at the thin end of the wedge, and commence the A.B.C. of functioning on "Indian" economic plat-

*See "The French System of Agricultural Credit" in Sarkar: *Economic Development* (Madras 1926) and his *Law and the Cultivator*: *The Example of France* in the "Journal of the Bengal National Chamber of Commerce," December 1926.

The convention of 23 June 1928 between the State and the *Banque* may be seen in Lebeau: *La Banque de France* (Paris 1931), pp. 196-198, 321.

forms. There is no more secure method of safeguarding "Bengali interests" in Indian commerce and capitalism than by taking advantage of the provisions offered by the Bill. It is to be trusted that Bengali businessmen will not fail to improve the capital power and financial position of their banks by fresh acquisitions as well as concentrations.

IMPERIAL BANK VIS A VIS RESERVE BANK

"It is curious that the Imperial Bank is to be the only one of the scheduled banks that will enjoy a certain number of gifts from the Reserve Bank. The gifts are the following deposits (Third Schedule Art. 3):

1. Rs. 30,000,000 without interest during the first five years,
2. Rs. 20,000,000 without interest during the next five years,

and so on up to the twenty-fifth year.

"Under the system recommended the Imperial Bank is likely to become a rival of the Reserve Bank to a ertain extent, at any rate, so far as its command over the financial resources is concerned. The proposal that the Imperial Bank should obtain from the Reserve Bank very large amounts as interest-free balances is just calculated almost to introduce a "dyarchy" in Central Banking and ought to be treated as a reactionary and irrational measure. To establish a Reserve Bank and at the same time to continue to bestow certain Central Bank privileges on a private Bank constitute a bankocratic confusion of the worst type,—even although it be for a transitional period. Neither would the *Reichsbank* entertain such a proposition in favour of the *Deutsche Bank und Disconto Gesellschaft*, nor the *Banque de France* for the *Credit Lyonnais*, nor the Bank of England for the Midland.

IMPERIAL BANK VIS A VIS OTHER SCHEDULED BANKS

"In case the Bill in its present form becomes law, the anomalous position of the Imperial Bank in the banking system of India for twenty-five years after the establishment of the Reserve Bank can escape no body's notice. If it is to be a "scheduled bank" i.e., one of the 69 private bnks endowed with the privilege of "signature", on the strength of which the Reserve Bank is authorized to deal in bills of exchange, the Imperial Bank, like all the others, ought to maintain a balance with the Reserve Bank to the extent of 7. 1/2% of the daily average of its demand liabilities *plus* 2. 1/2% of the daily average of its time liabilities [Art. 42 Section (1)]. As a scheduled bank the Imperial Bank should not possess any privileges such as are denied to the others.

"Any preferential treatment of the Imperial Bank is unfair to the other scheduled banks. From their standpoint the proposition is entirely objectionable. The concessions to be enjoyed by the Imperial Bank would spell danger to their normal functioning. As has been pointed out above, they have been relieved of the fear of competition with the Reserve Bank because of statutory safeguards such as serve to curb it of its freedom in functions and delimit the range of its transactions. But out of the frying pan they would be thrown into the fire in so far as they will have to encounter rivalry with the pampered mammoth in the shape of the Imperial Bank, which will be as free as themselves to enter every market.

THE PROPER CONDITIONS OF AGENCY

"The trouble has arisen from the solicitude to entrust the Imperial Bank with the "sole agency" of the Reserve Bank (Third Schedule, Art. 1). The patronage in the form of agencies ought rather to be fairly distributed among a large number of scheduled banks and should not be a monopoly to be enjoyed by just one institution.

"Besides, the period of twenty-five years during which the Imperial Bank is to enjoy the monopoly (Art. 43) should appear to be too long. Businessmen ought to try to have it brought down to not more than seven years.

"There is no reason why the Reserve Bank should fail to develop a large number of branches of its own during the next five or seven years and be as far as possible independent of the Imperial Bank and other scheduled banks in regard to the business that is generally entrusted to agents in the absence of one's own branches."

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BY

BENOY KUMAR SARKAR

The principles of Reserve Banks with special reference to the functioning and management of the Bank of England, the Banque de France and the Reichsbank have been analyzed in this book in detail with copious statistical material. The problems of foreign insurance companies, Bengali Loan Offices, Italian and Japanese commercial banks, currency legislation, railway administration at home and abroad, rationalization in agriculture, manufacture and commerce, as well as industrial finance and technique form the subject-matter of this volume. The author has, besides, examined the world's economic depression from the Indian standpoint and furnishes viewpoints on the export and import of capital as well as the recent industrialization of undeveloped regions such as have not been adequately surveyed by the League of Nations. The equations of comparative industrialism, based as they are on international statistics, serve to introduce the practical businessmen and statesmen as well as the economic theorists of India to the solid realities of world-economy and enable them to utilize the conjuncture in the interests of her material advancement.

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